

## Milaha/Qatar Navigation (QNNS)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR10.13	Target Price	QR11.20
Implied Upside	10.6%		

### Tops 2Q2023 Earnings Forecast; Still Valued Less Than Sum-Of-Its-Parts

- Milaha (QNNS or Qatar Navigation) posted 2Q2023 earnings of QR284.4mn, up 1.4% vs. QR280.5mn in 2Q2022 but down 21.7% QoQ as compared to QR363.3mn in 1Q2023.** Reported earnings/EPS of QR284.4mn/QR0.25 also exceeded our estimate of QR263.7mn/QR0.23 by 7.8%. *Relative to our model, Milaha Capital, Milaha Offshore and Milaha Gas & Petrochem posted better-than-expected earnings, while Milaha Maritime & Logistics and Milaha Trading came in below our model. (See page 2 for detailed table). We maintain our estimates and expect earnings to grow 13.4% YoY to QR1.15bn (EPS of QR1.01) in 2023.* On a normalized basis, excluding QR165.7mn in 2022 impairments, we still expect 2023 earnings to fall 2.5%.
- Strength in revenue/margins helped propel results from Milaha Capital/Offshore. (1) Milaha Capital** – recorded QR42.7mn in 2Q2023 net income (64.4% YoY, -64.4% QoQ); earnings came in more than double our model of QR21.0mn. The sequential decline in earnings is normal as the first quarter generally exhibits significant growth given most of Milaha Capital's investment/dividend income is recorded in 1Q. Higher-than-expected revenue due to upside in interest/other income, along with lower opex, helped drive upside vs. our model. **(2) Milaha Offshore** – according to the company, higher operating efficiency, coupled with higher-margin projects, helped drive results. 2Q2023 revenue came in at a record QR340.8mn on higher project income, increased utilization of diving assets and full employment of Milaha's liftboat. Operating margin expanded to 21.3% from 9.1% in 2Q2022 and 20.5% in 1Q2023, while EBITDA margin grew to 37.8% vs. 28.6% in 2Q2022 (EBITDA margin was 38.6% in 1Q2023). As a result, 2Q2023 net income of QR66.2mn (226.5% YoY, 8.0% QoQ) exceeded our forecast of QR52.0mn by 27.3%. **(3) Milaha Gas & Petrochem** – despite an [in-line performance](#) from its 36.3%-associate Nakilat, MG&P posted earnings of QR170.5mn (19.8% YoY, 9.4% QoQ), which came in 3.8% above our estimate of QR164.2mn. Higher-than-expected top line, along with in-line core profitability and Nakilat results, were partially offset by softer performance from other associates and JVs. **(4) Milaha Maritime & Logistics** – a drop in container shipping container shipping rates from near-record highs seen in 1Q2022, along with container volume declines, continue to impact this segment. Logistics, however, benefited from carry-over work related to the build up to the World Cup and increased project logistics activity. Consequently, we witnessed a MM&L top-line beat this quarter. 2Q2023 segment earnings, however, declined to QR6.0mn (-93.6% YoY, -74.9% QoQ) as EBITDA margins came in at -0.3% vs. 17.2% in 2Q2023 and 0.9% in 1Q2023. Net income also came in significantly below our estimate of QR23.8mn. **(5) Milaha Trading** – despite its revenue beat, quarterly earnings dropped back into the red after two consecutive quarters of profits. MT posed a loss of QR1.5mn vs. a loss of QR2.0mn in 2Q2022 and earnings of QR2.9mn in 1Q2023; we were expecting a profit of QR3.3mn in 2Q2023.
- Earnings should grow at a 5.6% CAGR (2022-2028e) excluding impairments/one-offs vs. a CAGR of -0.2% over 2015-2022. Roughly, 24% of this six-year growth in "clean" earnings should be driven by Milaha's operating businesses or its "core", led by growth in offshore.** MO, which makes up ~16% of the six-year growth in earnings should benefit due to the strong growth in O&G activities in Qatar and Milaha's focus on scaling up specialized subsea services and maintenance, modification & operations. Milaha's 49%-owned JV, QTerminals, should show a 4.3% CAGR (2022-2028e) and make up ~10% of the six-year growth in earnings given volume uptick/phase II expansion at the Hamad Port. The biggest drag on earnings growth could be the MM&L segment, excluding QTerminals, that is expected to post a close to 8% cumulative earnings decline over our forecast period. MM&L has faced significant headwinds with container shipping rates coming off their early 2022 highs and while rates declined significantly in 1H2023, management expects them to remain fairly stable for the rest of the year. A whopping 76% of the growth in future earnings is driven by "non-core" items, including Nakilat (7.2% CAGR), which propels almost 60% of Milaha's earnings growth. The remaining ~17% is driven by MC based on stable real estate income and improving yields on Milaha's investment portfolio.
- We remain bullish longer-term on the QNNS growth story. The stock, since we first started coverage in 2011, has usually traded at a significant discount to its sum-of-the-parts, sometimes worth only the value of its investment stake in Nakilat and its equity/bond portfolio.** This remains the case currently, with Milaha's "non-core" assets (Nakilat + Investment book), along with its net cash position, making up 100% of QNNS' market cap. **This implies that investors continue to get Milaha's "core" or operating businesses for almost free.** However, what has changed is that Milaha is enjoying several catalysts, which could help in making progress toward the stock's rerating **(1) The company's exposure to Qatar's oil and gas sector,** primarily through its Offshore segment (MO), could boost momentum through earnings growth and newsflow. **(2) An improvement in Maritime & Logistics (MM&L) segment's profitability,** above their depressed levels, could also help. **(3) Nakilat remains the biggest value driver,** both through its earnings growth and through its potential to secure new [NF expansion-related LNG shipping contracts](#). **(4) QNNS also has the ability to boost its dividends** given its strong balance sheet (maintains net cash of QR704.9mn as of 2Q2023) and solid FCF profile (despite increased capex requirements in offshore); we currently expect a 14.3% increase in DPS from QR0.35 in 2022 to QR0.40 in 2023. *Continued on next page.*

### Key Financial Data and Estimates

	2022	2023e	2024e	2025e	2026e	2027e
EPS (Excluding Impairments & One-Offs)	1.04	1.01	1.13	1.22	1.31	1.37
EPS Growth (%)	35.2	(2.5)	11.6	8.2	6.9	5.0
P/E (x)	9.8	10.1	9.0	8.4	7.8	7.4
EV/EBITDA (x)	13.0	12.9	11.9	11.2	10.5	9.9
FCF Yield (%)	6.8	7.3	8.3	8.8	9.3	9.7
DPS (QR)	0.35	0.40	0.45	0.50	0.55	0.60
RoE (%)	7.7	7.0	7.4	7.7	7.8	7.8

Source: Company data, QNB FS estimates; Note: All data based on current number of shares; These estimates may not reflect the most recent quarter

### Key Data

Current Market Price (QR)	10.13
Current Dividend Yield (%)	3.5
Bloomberg Ticker	QNNS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QNNC.QA
ISIN	QA0007227695
Sector*	Transportation
52wk High/52wk Low (QR)	12.66/8.10
3-m Average Volume ('00)	562.7
Mkt. Cap. (\$ bn/QR bn)	3.2/11.5
EV (\$ bn/QR bn)	3.0/10.8
Shares Outstanding (mn)	1,136.2
FO Limit* (%)	49.0
Current Institutional FO* (%)	15.1
1-Year Total Return (%)	0.6
Fiscal Year End	December 31

Source: Bloomberg (as of August 6, 2023), \*Qatar Exchange (as of August 6, 2023); Note: FO is foreign ownership

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- **Recommendation & valuation: We recommend an Accumulate rating QNNS.** We value Milaha using a SOTP methodology, which comprises of these major parts: **1)** Separate DCF-based values for the core businesses (MO, MM&L, MG&P and MT); **2)** A DCF-based value for QNNS' 36.3% stake in Nakilat (**QGTS: Accumulate/QR4.100 TP**); **3)** A P/E-based value for Milaha's 49.0%-owned JV QTerminals; **4)** Investment (stocks & bonds) portfolio at its 2Q2023 value; and **5)** Real estate investment properties at a 30% discount to 2Q2023 FV. We also apply a 30% conglomerate discount.
- **Risks: Milaha stock remains in a "show-me" mode – always optically undervalued relative to its SOTP, it has often struggled to receive much credit beyond its stake in Nakilat and its investment/real estate portfolio.** For the stock to rerate, investors need to continue to see earnings/EBITDA acceleration without significant impairments muddling up the story. Other risks remain, including: **(1)** Weakness/volatility in oil prices; **(2)** Execution/integration issues with major fleet additions/acquisitions; **(3)** Fall in local equity/RE prices; **(3)** A slowdown in Qatar's economy; and **(4)** Geopolitical crisis in the MENA region.

### QNB FS 2Q2023 Estimates and Comparisons

Revenue (in QR '000)	2Q2022	1Q2023	2Q2023	2Q2023e	A Vs. E	YoY	QoQ
MM&L	381,934	246,344	256,189	235,385	8.8%	-32.9%	4.0%
MO	296,708	308,563	340,760	313,362	8.7%	14.8%	10.4%
MG&P	47,909	57,368	62,760	57,423	9.3%	31.0%	9.4%
MC	104,422	172,003	93,568	81,820	14.4%	-10.4%	-45.6%
MT	107,221	57,926	68,719	55,899	22.9%	-35.9%	18.6%
Corporate Adjustments		2	(2)				
<b>Total</b>	<b>938,194</b>	<b>842,206</b>	<b>821,994</b>	<b>743,888</b>	<b>10.5%</b>	<b>-12.4%</b>	<b>-2.4%</b>
Eliminations	(77,194)	(75,960)	(77,424)	(52,072)	48.7%	0.3%	1.9%
<b>Total Net</b>	<b>861,000</b>	<b>766,246</b>	<b>744,570</b>	<b>691,816</b>	<b>7.6%</b>	<b>-13.5%</b>	<b>-2.8%</b>

Net Income (in QR '000)	2Q2022	1Q2023	2Q2023	2Q2023e	A Vs. E	YoY	QoQ
MM&L	94,131	24,051	6,032	23,774	-74.6%	-93.6%	-74.9%
MO	20,279	61,312	66,210	52,018	27.3%	226.5%	8.0%
MG&P	142,319	155,865	170,528	164,240	3.8%	19.8%	9.4%
MC	25,951	119,743	42,665	21,028	102.9%	64.4%	-64.4%
MT	(1,992)	2,940	(1,491)	3,298	N/M	-25.2%	N/M
<b>Total</b>	<b>280,688</b>	<b>363,911</b>	<b>283,944</b>	<b>264,358</b>	<b>7.4%</b>	<b>1.2%</b>	<b>-22.0%</b>
Minorities	(196)	(626)	438	(628)	N/M	N/M	N/M
<b>NI to Equity</b>	<b>280,492</b>	<b>363,285</b>	<b>284,382</b>	<b>263,730</b>	<b>7.8%</b>	<b>1.4%</b>	<b>-21.7%</b>

Impairment of PP&E/Vessels/Intangibles

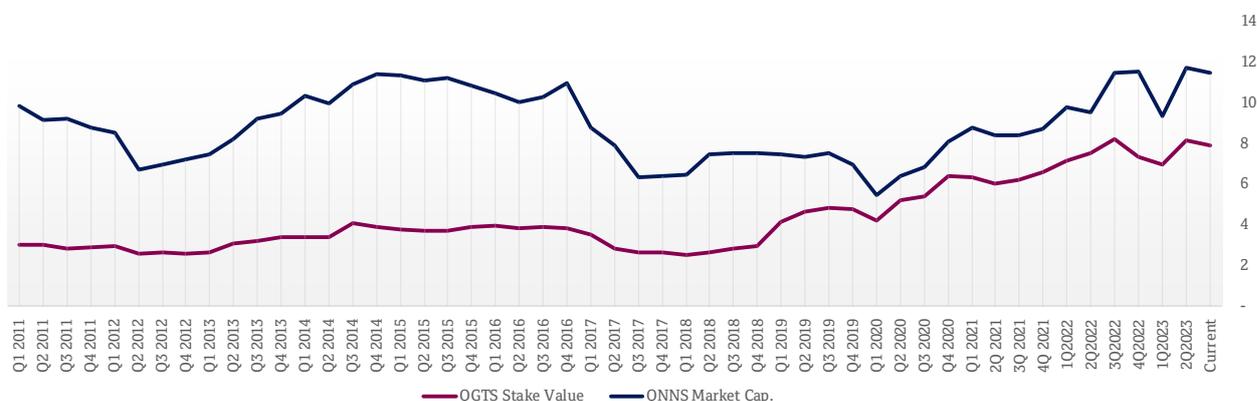
<b>NI to Equity, Ex. Impairment</b>	<b>280,492</b>	<b>363,285</b>	<b>284,382</b>	<b>263,730</b>	<b>7.8%</b>	<b>1.4%</b>	<b>-21.7%</b>
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<b>EPS</b>	<b>0.25</b>	<b>0.32</b>	<b>0.25</b>	<b>0.23</b>	<b>7.8%</b>	<b>1.4%</b>	<b>-21.7%</b>
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Net Income (in QR '000)	2Q2022	1Q2023	2Q2023	2Q2023e	A Vs. E	YoY	QoQ
MM&L Normalized	94,131	24,051	6,032	23,774	-74.6%	-93.6%	-74.9%
MO Normalized	20,279	61,312	66,210	52,018	27.3%	226.5%	8.0%
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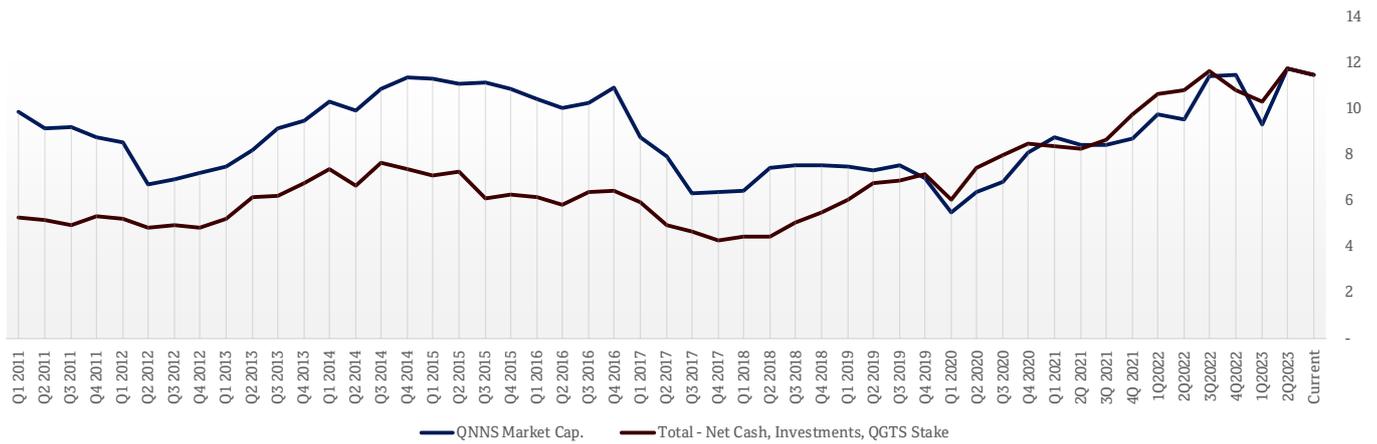
Source: Company data, QNB FS Research

### QGTS Stake Alone is ~70% of Milaha's Market Cap. (QR bn)



Source: Bloomberg, QNB FS Research

**QGTS+Investments+Net Cash ~100% QNNS Market Cap. Implying Almost Zero Value for Remaining Assets (QR bn)**



Source: Bloomberg, QNB FS Research

**Key Ratios & Valuation**

**Growth Metrics**

Key Ratios	2020	2021	2022	2023e	2024e	2025e	2026e	2027e	2028e
<b>Growth (%)</b>									
Revenue	(6.49)	22.78	18.01	(12.22)	4.58	3.35	3.24	3.16	3.18
Gross Profit	(0.66)	(0.06)	21.59	(2.99)	4.24	3.37	3.69	3.39	3.55
EBITDA	0.20	(3.87)	38.05	(0.90)	5.38	3.88	4.44	3.77	3.94
EBIT	(1.35)	(9.26)	92.46	(4.82)	6.16	3.44	4.44	3.23	3.51
Net Profit	(89.19)	1,125.18	39.85	13.41	11.60	8.21	6.91	5.02	4.80
Net Profit (Excluding Impairments & One-Offs)	4.27	2.15	35.18	(2.54)	11.60	8.21	6.91	5.02	4.80
<b>Profitability (%)</b>									
Gross Margin	54.32	44.21	45.56	50.35	50.19	50.20	50.42	50.53	50.71
EBITDA Margin	28.48	22.29	26.08	29.44	29.67	29.82	30.17	30.35	30.57
EBIT Margin	12.30	9.09	14.82	16.07	16.31	16.33	16.52	16.53	16.58
Net Margin	2.61	26.01	30.83	39.83	42.50	44.51	46.09	46.92	47.66
RoE	0.42	5.10	6.58	7.00	7.45	7.68	7.82	7.83	7.84
RoE (Excluding Impairments & One-Offs)	6.04	6.13	7.66	7.00	7.45	7.68	7.82	7.83	7.84
RoAA	0.34	4.20	5.66	6.19	6.74	7.05	7.23	7.28	7.33
BEP	1.61	1.47	2.72	2.50	2.59	2.59	2.59	2.57	2.55
RoAIC	1.81	1.66	3.06	2.80	2.90	2.90	2.90	2.87	2.85
RoACE	1.72	1.58	2.92	2.66	2.74	2.74	2.74	2.71	2.69
<b>Efficiency</b>									
Fixed Asset Turnover	0.62	0.89	1.12	1.01	1.05	1.07	1.10	1.13	1.15
Total Asset Turnover	0.13	0.16	0.18	0.16	0.16	0.16	0.16	0.16	0.15
Sales-to-Net Working Capital	29.91	35.67	10.42	7.75	7.57	7.50	7.42	7.35	7.30
Receivables-to-Payables	1.00	0.97	1.24	1.58	1.59	1.59	1.60	1.60	1.61
Capex-to-Sales (%)	9.77	8.00	6.89	9.49	9.49	9.59	9.71	9.84	9.96
<b>Liquidity (x)</b>									
Current Ratio	1.16	1.54	1.96	2.96	3.94	4.12	4.31	4.46	4.60
Quick Ratio	1.11	1.47	1.89	2.86	3.81	3.99	4.18	4.33	4.47
Cash Ratio	0.25	0.47	0.92	1.47	1.84	2.01	2.18	2.30	2.42
<b>Leverage Ratios</b>									
Net Debt/Equity (%)	12.73	6.03	(2.56)	(3.92)	(5.21)	(6.35)	(7.36)	(8.14)	(8.82)
Net Debt-to-Capital (%)	11.34	5.82	(2.59)	(3.98)	(5.41)	(6.70)	(7.81)	(8.67)	(9.43)
Net Debt-to-EBITDA	2.70	1.43	(0.48)	(0.78)	(1.03)	(1.26)	(1.47)	(1.64)	(1.79)
Interest Coverage Ratio (x)	3.33	3.48	8.22	7.80	11.78	18.62	24.19	30.83	41.45

Source: Company data, QNB FS Research

**Relative Valuation**

Valuation Multiples	2020	2021	2022	2023e	2024e	2025e	2026e	2027e	2028e
P/E (x)	194.7	15.9	11.4	10.0	9.0	8.3	7.8	7.4	7.1
P/E Excluding Impairments & One-Offs (x)	13.5	13.2	9.8	10.0	9.0	8.3	7.8	7.4	7.1
P/B (x)	0.8	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.5
EV/EBITDA (x)	20.5	20.0	13.0	12.8	11.8	11.1	10.4	9.8	9.2
Dividend Yield (%)	3.0	3.0	3.5	3.9	4.4	4.9	5.4	5.9	6.4
FCFF Yield (%)	7.5	7.0	6.9	7.4	8.4	8.9	9.4	9.7	10.2

Source: Company data, QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	FY2022	FY2023e	FY2024e	FY2025e
<b>Revenue</b>	<b>3,285</b>	<b>2,884</b>	<b>3,016</b>	<b>3,117</b>
COGS	(1,789)	(1,432)	(1,502)	(1,552)
<b>Gross Profit</b>	<b>1,497</b>	<b>1,452</b>	<b>1,513</b>	<b>1,564</b>
SG&A	(640)	(603)	(619)	(635)
<b>EBITDA</b>	<b>857</b>	<b>849</b>	<b>895</b>	<b>929</b>
Depreciation & Amortization	(370)	(386)	(403)	(421)
<b>EBIT</b>	<b>487</b>	<b>463</b>	<b>492</b>	<b>509</b>
Net Interest Income (Expense)	(44)	(33)	(9)	11
<b>Share of Results From JVs</b>	<b>179</b>	<b>171</b>	<b>193</b>	<b>207</b>
<b>Share of Results From Associates</b>	<b>542</b>	<b>558</b>	<b>618</b>	<b>674</b>
Impairments & Others	(146)	1	0	0
<b>Net Profit Before Taxes &amp; Minority Interest</b>	<b>1,017</b>	<b>1,160</b>	<b>1,294</b>	<b>1,400</b>
Taxes	(1)	(9)	(10)	(10)
Net Profit Before Minority Interest	1,016	1,151	1,285	1,390
Minority Interest	(4)	(3)	(3)	(3)
<b>Net Profit</b>	<b>1,013</b>	<b>1,149</b>	<b>1,282</b>	<b>1,387</b>
<b>Net Profit Excluding Impairments &amp; One-Offs</b>	<b>1,178</b>	<b>1,149</b>	<b>1,282</b>	<b>1,387</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2022	FY2023e	FY2024e	FY2025e
<b>Current Assets</b>				
Cash & Cash Equivalents	1,467	1,577	1,461	1,640
Loan to a Related Party	0	0	0	0
Equity Investments at FVTPL	502	528	549	571
Trade & Other Receivables	1,036	968	1,009	1,046
Inventories	115	100	105	108
<b>Total Current Assets</b>	<b>3,120</b>	<b>3,173</b>	<b>3,124</b>	<b>3,365</b>
<b>Non-Current Assets</b>				
Other Assets	312	313	312	308
Investment Securities at FVOCI	2,567	2,617	2,722	2,831
Investment In Associates	7,548	7,844	8,180	8,572
Investments in JVs	1,025	1,059	1,098	1,139
Intangible Assets	16	15	14	13
Investment Property	884	904	925	946
Property, Vessels & Equipment	2,841	2,865	2,890	2,914
<b>Total Non-Current Assets</b>	<b>15,193</b>	<b>15,618</b>	<b>16,140</b>	<b>16,723</b>
<b>Total Assets</b>	<b>18,313</b>	<b>18,791</b>	<b>19,264</b>	<b>20,088</b>
<b>Current Liabilities</b>				
Trade & Other Payables	755	614	634	658
Loans, Borrowings & Lease Liabilities	838	458	159	159
<b>Total Current Liabilities</b>	<b>1,593</b>	<b>1,073</b>	<b>793</b>	<b>816</b>
<b>Non-Current Liabilities</b>				
Loans & Borrowings	299	542	465	387
Others	337	339	339	339
Total Non-Current Liabilities	637	881	803	726
<b>Total Liabilities</b>	<b>2,229</b>	<b>1,954</b>	<b>1,596</b>	<b>1,542</b>
Minority Interest	42	45	48	51
<b>Shareholders' Equity</b>	<b>16,042</b>	<b>16,792</b>	<b>17,620</b>	<b>18,496</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>18,313</b>	<b>18,791</b>	<b>19,264</b>	<b>20,088</b>

Source: Company data, QNB FS Research

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

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